



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Thursday, April 5, 2012**

—  
**Chair**

**Mr. David Christopherson**



## Standing Committee on Public Accounts

Thursday, April 5, 2012

•(0845)

[English]

**The Chair (Mr. David Christopherson (Hamilton Centre, NDP)):** I now call the 37th meeting of the Standing Committee on Public Accounts to order.

Yes, Mr. Saxton?

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair.

Before we get started with our witnesses this morning, I'd like to introduce a very brief motion that I'd like to read to the committee at this time. It

**IS:** That, pursuant to S.O. 108(2), the Standing Committee on Public Accounts begin a study of the Spring 2012 Report of the Auditor General, beginning with Chapter 2 (Replacing Canada's Fighter Jets), and that the committee hold a planning session at the meeting of April 24th, to determine the witness list and agenda for the study, and that when the study is completed the Committee report its finding to the House of Commons.

**The Chair:** Okay, thank you.

Are there any other notices of motion?

Go ahead, Mr. Byrne.

**Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.):** Thank you, Mr. Chair.

This is further to discussions held with you, the Chair, on my motion, which was tabled on Tuesday. I had tabled a motion that I hope we'll be able to get to today. I'd like to offer to pursue the motion at the end of the meeting rather than chew up the valuable time of our Auditor General and his officers, but I would like to read into the record the motion I tabled on Tuesday, if I may.

**The Chair:** You may.

**Hon. Gerry Byrne:** Thank you, Mr. Chair.

It reads as follows:

That, pursuant to S.O. 108(3)(g), the Committee immediately begin a study of Chapter 2, Replacing Canada's Fighter Jets, of the Spring 2012 Report of the Auditor General of Canada, and that the witness list include, but not be limited to:

Michael Ferguson, Auditor General of Canada

Kevin Page, Parliamentary Budget Officer

Dan Ross, Assistant Deputy Minister (Materiel), National Defence

LGen J.P.A. Deschamps, Chief of the Air Staff, National Defence

Michael J. Slack, F-35 Project Manager, Director of Continental Materiel Cooperation, National Defence

Col D.C. Burt, Director, New Generation Fighter Capability, National Defence

Tom Ring, Assistant Deputy Minister, Acquisitions Branch, Public Works and Government Services Canada

Johanne Provencher, Director General, Defence and Major Projects Directorate, Public Works and Government Services Canada

Richard Dicerni, Deputy Minister, Industry Canada

Craig Morris, Deputy Director, F-35 Industrial Participation, Industry Canada; and

That the Committee report its findings to the House of Commons.

Mr. Chair, I would suggest my motion be dealt with in the last 15 minutes of this meeting, since it was tabled on Tuesday, as per our normal conventions.

**The Chair:** Thank you.

That would be my suggestion—that we hold the meeting we are convened for. The normal rotation should take us until about 15 minutes before the end of the meeting. That should be enough time for us to deal with committee business, and since that motion was received first, we will deal with it first and then with Mr. Saxton's motion. We will do all of that at the conclusion of our discussions with the Auditor General.

Is that agreed?

**Some hon. members:** Agreed.

**The Chair:** Mr. Kramp, you had asked for the floor.

•(0850)

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Just briefly, I think that is a great idea. Obviously the government is highly supportive of the study, and it is important that we go forward. The Auditor General has raised some serious concerns that we need to address, and the government is definitely willing to look at that.

We don't want to waste time here, so at the end of the prescribed time according to the Chair, let's discuss the issue so that we can set the process in place to begin the study on the F-35.

**The Chair:** Very good. Thank you.

Are there further interventions? Hearing none, we'll move to the order of the day.

Mr. Ferguson, welcome again, sir. This would be your first major public appearance. We had you here two days ago, in camera, when you tabled your report, and we are here now to formally receive your report and have our first go-round on the chapters.

Following that, sir, as is our procedure, we will make a determination of how many of your chapters we will hold hearings on and then advise you and your office at the appropriate time so that you can prepare for those and be present for those hearings.

At this moment, sir, you now have the floor to present your report.  
[Translation]

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you.

Mr. Chair, I am pleased to present my spring report, which was tabled in the House of Commons last Tuesday. I am accompanied by Assistant Auditors General Jerome Berthelette and Wendy Loschiuk.

The first chapter in this report is about border controls on commercial imports. We found that, while controls are generally working, they need to be better monitored. We know that the controls are generally working because we tested them, not because the responsible departments were able to tell us so. The Canadian Border Services Agency and other departments need to be better at monitoring their controls at the border.

We found monitoring problems with controls reserved for higher-risk items, such as pharmaceuticals and pest control products.

Knowing whether border controls continue to work as intended will require better monitoring on an ongoing basis.

[English]

I would now like to turn on our chapter on replacing Canada's fighter jets.

We looked at the decision to replace the aging CF-18 fleet with the F-35 Lightning II. We found that National Defence did a good job of managing Canada's participation in the U.S.-led joint strike fighter program to design and develop the F-35. However, the department did not acknowledge that the decision to purchase the F-35 was well under way four years before it was officially announced. As a result, there were a number of significant problems with the decision-making process.

National Defence did not recognize and adequately address the risks inherent in this project. It did not cost the project adequately, omitting some important cost elements. Finally, the department did not provide Parliament with complete cost information or fully inform decision-makers about the risks of this program.

National Defence did not exercise the diligence that would be expected in managing a \$25 billion commitment. It's important that a purchase of this size be managed rigorously and transparently.

[Translation]

The third chapter in our report looks at how the Department of Finance manages the government's interest-bearing debt.

Interest charges on the public debt limit the policy choices available to government. Last year, interest payments amounted to 11.4% of government expenses. Improved reporting on the interest-bearing debt not only helps managers manage but also helps Canadians understand what they can afford as a nation.

● (0855)

[English]

We found that Finance Canada has in place sound tools and practices to manage Canada's interest-bearing debt. However, it needs to provide more information to decision-makers and Canadians about how well the debt management strategy is performing.

We also found that while Canada is a world leader in recording public sector pension liabilities in its financial statements, the information needs to be easier to find in order to be understood by a broader audience.

Our fourth chapter is about the Canada Revenue Agency's non-filer/non-registrant program. Income tax is the single most important source of government revenue. The non-filer/non-registrant program is relatively small, but it assessed \$2.8 billion in additional taxes, interest, and penalties in each of 2009-10 and 2010-11. The agency gets a good return on its investment from this program. Our chapter suggests ways the agency could improve that return with its current level of investment.

The fifth chapter of our report is on Transport Canada's oversight of civil aviation. Transport Canada has moved to an approach that puts the onus on aviation companies to develop safety management systems in accordance with regulations. Transport Canada then oversees the companies' compliance with the regulations.

Though Canada has an excellent aviation safety track record, Transport Canada needs to be diligent in its oversight of the safety systems of aviation companies.

[Translation]

We found that some aspects of surveillance are working well. But there are weaknesses in how Transport Canada plans and conducts its surveillance activities.

In 2010-11, it completed only about two thirds of planned inspections, even though only higher-risk companies are selected for inspection in a given year.

Transport Canada has made progress in moving to a new regulatory framework. Now it must resolve the significant weaknesses in surveillance that we identified.

My report also presents the main points of our special examination reports on three crown corporations, issued to the respective boards of directors throughout 2011. We found no significant deficiencies in the systems and practices of the Canadian Dairy Corporation, the Canadian Race Relations Foundation, and the Public Sector Pension Investment Board.

Mr. Chair, this concludes my opening statement. We will be happy to answer any questions you may have.

[English]

**The Chair:** Very good. Thank you, Mr. Ferguson.

We'll now begin our usual rotation.

Mr. Saxton, you have the floor, sir.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

Thank you to the Auditor General and to the Deputy Auditors General for being here today.

I would first like to congratulate the Auditor General on his first report to Parliament, and also thank you for the good work you did in providing us with that report.

Chapter 2, “Replacing Canada’s Fighter Jets”, seems to be the chapter that’s getting the most attention, so why don’t we get right to it? The first thing I’d like to point out is that the government does accept the recommendation that you made on that chapter.

Can you please explain to us your recommendation in chapter 2 and how you came to that recommendation?

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

The recommendation is contained in paragraph 2.77 of the report. Essentially what we are recommending is that National Defence prepare a complete cost estimate of the cost of acquiring the F-35 over the full life cycle of the jet.

As is pointed out in the chapter, one of the areas where we found there were some problems was with National Defence’s estimate of the costs. We pointed out where we felt there needed to be some refinement in those estimates, and we’ve made a recommendation that they should come forward with what that full costing would be.

• (0900)

**Mr. Andrew Saxton:** Thank you.

As you probably know, the government has taken immediate action and addressed your concerns in that recommendation. We’ve established an F-35 secretariat. The government has also announced, in response to your report, that the Department of National Defence, through the F-35 secretariat, will provide annual updates to Parliament. The Department of National Defence will also provide technical briefings, as needed, through the F-35 secretariat on the performance schedule and costs.

Do these measures adequately address your recommendation?

**Mr. Michael Ferguson:** Without doing a full analysis of what the government is proposing, it’s difficult for me to say. Certainly, though, what’s important is to make sure that the government now puts in place a process that is going to be structured and is going to have the appropriate scrutiny. Because the government has made the decision to replace the CF-18 and because the actual replacement jets have not been acquired, it is critical to make sure that this process is handled well from here on in.

At first glance, some of the items that you have mentioned appear to be steps in the right direction, but of course we haven’t done a full analysis.

**Mr. Andrew Saxton:** Thank you.

Now, as we all know, not a single aircraft has yet been purchased. Through your audit, did you find that any money was misspent?

**Mr. Michael Ferguson:** No, we didn’t.

**Mr. Andrew Saxton:** Thank you.

Now, this is a complex issue. Can you tell us what the scope of your audit was?

**Mr. Michael Ferguson:** The scope of our audit was to look at whether due diligence was applied in the process for making the decision to replace the CF-18. Briefly, that’s what we were looking at—that decision process.

We looked, really, at two aspects of the decision process. One was Canada’s participation in the joint strike fighter program, the partnership program with the United States and other partners, but we were also looking at the decision process within Canada itself about how to replace the CF-18s.

**Mr. Andrew Saxton:** Okay. Would you agree that this is a rather unique situation? It’s a partnership with the United States and with other countries. Would you say that because of that partnership, the process may have been a bit more complicated than would normally have been the case?

**Mr. Michael Ferguson:** Certainly we felt that this was going to be an unusual type of project. That’s why we felt that it would have been important for National Defence to bring in all of the potential departments, including Public Works, early on to set out exactly what the process would be to make this decision—so yes, we identified that this was not a normal type of purchasing process.

**The Chair:** Thank you.

I’m sorry. Your time has expired.

Next is Mr. Allen. You have the floor, sir.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair.

I thank the Auditor General for being with us today.

Auditor General, I’d like to talk a little bit about chapter 2 in the context of lessons learned, because I notice that when we do these reports, in all of the recommendations there’s quite often talk about lessons learned and departments either accepting or not accepting. In this particular case, the department actually said it disagreed with your major recommendations.

Let me put it in context. In the fall of 2010, Madam Fraser’s report, in chapter 6, dealt with helicopters. Let me go through the recommendations quickly:

National Defence should review and apply the lessons learned with these helicopter acquisitions...

primarily, and I’m now paraphrasing, “...in the assessment of risk, project timelines, and costs, and...procurement strategies [should be] tailored to the complexity of the equipment being acquired”.

DND agreed. They responded:

National Defence continuously strives to capture the lessons learned in undertaking complex acquisitions and, in this context, will undertake a specific review... “

on that one. The response goes on to state:

In addition, a review of the associated policies, procedures, and processes will also be conducted and they will be revised as required.

This was a report done 18 months before this one. We had a project that clearly had difficulty; the Auditor General pointed it out, and the defence department said that you were right, and that they’d make sure that as they looked at other projects, they’d learn the lessons and apply them.

In your opinion, sir, did they learn any lessons? If they did, did they apply them?

• (0905)

**Mr. Michael Ferguson:** First of all, I need to be clear that National Defence did in fact accept our recommendation. They disagreed with the conclusion that we made. That's one thing.

In this audit, we didn't specifically go back and do a follow-up on the recommendations that we made to National Defence in a previous report. I think it's clear in this chapter, though, that we found significant problems along the way in this decision-making process: problems in the areas of documents being out of sequence, problems with analyses that weren't always complete, problems with their risk mitigation strategy, and problems with the financial information that was prepared.

I can't specifically go back and make the direct comparison. That wasn't part of the audit, but I think this audit stands on its own when it speaks to the weaknesses that we identified in this audit.

**Mr. Malcolm Allen:** I appreciate that you didn't look back at chapter 6, but again, let me look at what Public Works' involvement was in 2010.

**The recommendation was that:** Public Works and Government Services Canada should review and apply the lessons learned with these helicopter acquisitions to ensure that, for future major capital equipment acquisitions, the degree of modifications...

They said they would make sure to do that. The department said they agreed. Public Works said that they would learn from the lessons. They would ensure that going forward, things were done properly. They would do the assessment of risk and make sure that "procurement strategies and contracts [would] be tailored to the complexity of the equipment being acquired".

Mr. Saxton said it was complex. They said that they would tailor the processes they put in place to the complexities. They knew this was a complex project, I would think. I think we all agree on that. **Before I actually ask the question, the final conclusion in Madam Fraser's report talked about management. It read:** Regarding project management, National Defence did not fully comply with the key provisions of the Treasury Board Project Management Policy, Project Approval Policy, and Policy on the Management of Major Crown Projects or with the Department's Project Approval Guide in managing the acquisition of the two types of military helicopters selected for our audit. Specifically, we identified several gaps in the completeness of information presented to decision makers as well as approvals and oversight by senior boards at key decision points.

That was in chapter 6 of the fall report.

I believe you also said in your report, sir, that decision-makers were not informed on this particular aspect of this particular procurement and that there were gaps in project approval. There were gaps in documentation and processes weren't followed.

I know that you haven't studied the other report and didn't compare them, but let me just say that the similarities are striking to the point that they look like twins. If indeed the minister read this, and I would assume that he did.... I would ask you to answer that question. I would assume that the minister in this department reads your reports. I know that my friends across the way do, so I would expect that the government actually knew about this report.

This is a question I'm sure you won't answer for me, but that's okay. I'll leave the question out there. If the minister knew about this report and knew he'd not been told all of the things in this particular project a number of years ago, why would he not have then said, "Hang on, folks. What are you not telling me about this one, the F-35, like you didn't tell me about the helicopters? Let's stop and make sure all the *i*'s are dotted and *l*'s are crossed"?

Is it fair to say that this question should have been asked?

• (0910)

**The Chair:** Go ahead, Mr. Ferguson.

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

I really can't speak for what the minister may have or may not have done. I can't speak to that.

**The Chair:** Okay. Thank you.

I'm sorry, but your time has expired.

Mr. Kramp, you have the floor, sir.

**Mr. Daryl Kramp:** Thank you, Chair. Welcome to our guests again.

I have a number of questions on the F-35 as well. Obviously, I expect we'll be seeing you again as we delve deeply into that topic down the road, so I'll switch to another couple of areas right now to try to do a little bit of justice.

Millions of people fly every year. They really need assurance that when they go in the air, they feel safe. Is it possible for you to just give us a general statement? Should Canadians be encouraged to believe that they are flying safely?

**Mr. Michael Ferguson:** In that particular audit, we wanted to find out whether Transport Canada was providing sufficient oversight of the safety practices of the civil aviation companies in Canada, remembering, of course, that Canada has an excellent track record of civil aviation safety and remembering that the responsibility for air safety lies with those aviation companies. Transport Canada's role is as a regulatory overseer.

We found that they do, in fact, have an appropriate regulatory framework in place and an appropriate methodology in place, but there were weaknesses in many aspects of their actual inspection and surveillance activities.

Again, the responsibility for aviation safety rests with the industry, but Transport Canada has an important regulatory oversight role. They need to make sure that they are fulfilling that role so that people have confidence that the regulator is doing what the regulator should be doing.

**Mr. Daryl Kramp:** Thank you very much.

Obviously you've identified a couple of the weaknesses and a number of strengths that we can talk about in a bit, but in terms of identifying the weaknesses, which you so capably did, I'm concerned how Transport Canada will react, not to the publication but to your recommendation to address these weaknesses. Has Transport Canada given you a response you're comfortable with?

**Mr. Michael Ferguson:** Yes, Transport Canada agreed with all our recommendations. They understand the importance of dealing with the weaknesses we identified.

**Mr. Daryl Kramp:** Thank you.

It's important that we do what we do well, and we can build on those successes as well. Are there particular elements of your evaluation of air transport that identify strengths and aspects we need to be able to focus on and expand—best practices, etc.? In other words, what do we do well?

**Mr. Michael Ferguson:** We identified a framework in place that is consistent with international requirements and norms. We identified that Transport Canada does go through a process of comparing Canada's regulatory framework to those international recommendations and that their surveillance methodology has the aspects we would expect to see in a good surveillance methodology, but again we found areas, particularly in the implementation of that methodology, that need to be improved.

**Mr. Daryl Kramp:** Fine. Thank you.

When it comes to paying taxes, no one likes to pay taxes, but of course when people don't even file, we have some concerns, obviously. As well, when we get a request for funds from Revenue Canada, there's generally a huge difference between the assessed tax and the penalty and interest.

In the figures you have for non-filers, did you break down the difference between the tax itself and the penalty and the interest? Sometimes, of course, the penalty and interest can be exorbitant, as we know.

**Mr. Michael Ferguson:** In Canada Revenue Agency's program for identifying non-filers and non-registrants, we identified that they assessed \$2.8 billion a year in each of two years, I believe, in terms of taxes, interest, and penalty. I don't have the exact breakdown at the front of my mind.

• (0915)

**Mr. Daryl Kramp:** Would that be available to us?

**Mr. Michael Ferguson:** I will check to see if we have those exact numbers, and if so, we'll report back.

**Mr. Daryl Kramp:** Thank you very much.

**The Chair:** Thank you, sir.

We'll move on to Monsieur Dubé. You have the floor, sir.

[*Translation*]

**Mr. Matthew Dubé (Chambly—Borduas, NDP):** Thank you, Mr. Chair.

There has been a lot of talk about recommendations being accepted. But the report says, word for word, that National Defence and Public Works and Government Services do not agree with the conclusions in paragraphs 2.80 and 2.81. You say quite clearly there that Parliament has not been sufficiently informed. In paragraph 2.80, you say: "Some costs were not fully provided to parliamentarians."

I assume that, in the House of Commons, ministers answer questions on this matter and are required to provide the information.

Do you agree that the minister did not fulfill his responsibility in informing parliamentarians of the cost of the project?

[*English*]

**Mr. Michael Ferguson:** We identified that after the Parliamentary Budget Office presented its estimate of costs, that was the opportunity National Defence should have taken to bring forward the full costing information to Parliament. They should have identified that. The way to respond to what the Parliamentary Budget Office came out with was their full estimate of the cost over the full life cycle of those replacement jets.

[*Translation*]

**Mr. Matthew Dubé:** Thank you.

You mentioned the Parliamentary Budget Officer. We have been told that the government screamed and yelled that the information that person had provided was not accurate. After all that, here you are providing the same figures, and the government still insists on saying that it does not accept your conclusions, even though it claims to accept your recommendation.

As an auditor, do you feel that it is normal for someone to say that they accept your recommendations but that they do not accept the key part of your conclusions? Can one be done without the other?

[*English*]

**Mr. Michael Ferguson:** We made one very specific recommendation about preparing and presenting the full costing information, and they accepted that. On our assessment of whether due diligence was applied, we felt that National Defence did not apply sufficient due diligence and that Public Works should have provided more oversight. Those were the conclusions they disagreed with.

We put the statement in the report that the departments disagreed with our conclusions because it was out of the ordinary to have that type of response from departments. We felt it was important to make it clear to people that we looked at the evidence, came up with our conclusions, published our conclusions, and the departments disagreed with the conclusions.

[*Translation*]

**Mr. Matthew Dubé:** Thank you; I am going to rely on your knowledge and your expertise in this area.

There is one thing that I have a really hard time understanding. If I am not mistaken, your recommendations are probably entirely based on your conclusions. Is that correct?

[*English*]

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

In this particular instance, the only recommendation we made in the chapter itself was around the costing information and providing that full information. The department agreed with that.

In this particular instance, because our recommendation was so focused, the position they took was not totally inconsistent. However, we feel very strongly that our conclusions are right, based on the objective and criteria we set and the evidence we looked at.

• (0920)

**The Chair:** I'm sorry; your time has expired.

[Translation]

**Mr. Matthew Dubé:** Thank you.

[English]

**The Chair:** You're right on the nose.

Thank you both very much.

Mr. Shipley, you have the floor, sir.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you.

Thank you, Mr. Auditor General, for your report.

Just off the top, you've done a number of them here, and we'll obviously focus on one or two. On the crown corporations, I think these are huge dollar amounts that have an impact on the economy of Canada—up to \$375 billion in assets. It's worth noting the ones that have been audited: the Dairy Commission, the Race Relations Foundation, the Public Sector Pension Investment Board. Those are large dollars, and there were no significant deficiencies. I just wanted to highlight that before I move to my questions and comments.

I want to go first to the report on Canada's civil aviation industry. My colleague brought up the point that many of us fly all the time. We consider this to be a safe industry when we get on a plane. My understanding is that somewhere between 2000 and 2010, the accident rate actually decreased by about 25%, while air travel has increased significantly. There are around 5,000 companies operating 34,000 aircraft in Canada.

I think there were nine recommendations in total. Do you think it is reasonable that they would deal with these recommendations by 2013?

**Mr. Michael Ferguson:** Certainly we made a number of recommendations in this chapter, and the department agreed with them. They have put timelines on many of their responses. Those are the timelines that the department has committed to, so we would expect that they have put the necessary thought into setting those timelines.

I certainly expect that if they have set a completion date on something, they will make every effort to meet that date.

**Mr. Bev Shipley:** Yes, and I'm just trying to remember the number of flights. In Canada there are three million flights, I think, and 75 million passengers or cargoes that travel each year. Obviously the industry has grown rapidly, so I appreciate the fact that those recommendations will be coming forward.

I wonder if I could just trip forward now to border controls on commercial imports. On one of the issues that has come forward on it, your comment was that the volume of imports into Canada is so large that it is not practical to apply controls on every shipment that enters. We—I think all of us—understand that.

It seems to me that the CBSA released 13 million shipments of commercial products in the last year, between 2010 and 2011. That's just to give the people who perhaps won't read this report, or the few who may listen to this, an understanding of the volume that we deal with.

One of the concerns raised is that there may be high-risk products coming through the border into Canada that will not get looked at. In my riding of Lambton—Kent—Middlesex, we have a lot of agriculture. If a product were to come in through the horticulture or the agriculture industry....

I'll use the example of some apple trees, let's say, that are used for little sprigs. When they leave the original country, they are to have no dirt on them so that when they get through the border.... They are checked, actually, in the original country.

I can tell you that well over 50,000 of those little trees came in, and they got turned around once they landed. I saw these. You can—

● (0925)

**The Chair:** Get to a question quickly, sir. You're running out of time.

**Mr. Bev Shipley:** Okay.

On a good day, you could maybe find less than a teaspoon of dirt if you scraped them off. Is that considered a high risk because they may contain some nematode? Is that a product that would be considered a high risk?

**Mr. Michael Ferguson:** I can't remember each and every item. Certainly what this chapter was about was how well the Canada Border Services Agency was enforcing controls at the border for products that have been identified as needing controls at the border.

I can't speak to any specific product. This chapter was about how Canada Border Services Agency conducts that control at the border.

**The Chair:** Very good.

Thank you both very much.

Mr. Byrne, you have the floor, sir.

**Hon. Gerry Byrne:** Thank you very much, Mr. Chair.

Thank you to our witnesses and to the Auditor General.

You conducted a performance audit on the fifth-generation stealth fighter jet acquisition process. The scope of the audit was to determine if due diligence was applied to this process. You have informed us again today that was one of the primary objectives of the audit itself.

You, sir, accomplished what others could not. Through the integrity of your office and your own personal integrity, you successfully focused attention on a serious issue that had been repeatedly reported by the Parliamentary Budget Officer, who could not break through to frame attention on this serious issue.

Advice from foreign governments could not capture the attention of the government on this issue. Parliament could not attract the attention of the government on this issue. In fact, those who spoke out were virtually vilified for suggesting that things could be awry. The Liberal Party of Canada has spoken out about this issue since 2010, but you were able to focus attention to this issue, and successfully so.



You raised one recommendation and one recommendation only, but really what you did was focus attention on the process. You said that DND did not perform basic due diligence on this acquisition, which could turn out to be a deal valued at more than \$25 billion. You said DND failed to engage Public Works on basic contracting requirements arising out of the 2006 MOU.

You told us that serious problems had not been communicated to Parliament, and potentially to cabinet, and that the risks were understated for this project. You said that the full life cycle costs of the F-35 were deliberately understated to both Parliament and to cabinet, that Public Works didn't fulfill its responsibilities as the government's procurement authority, and that there was no documentation on any of this. Public Works failed its responsibilities when it accepted National Defence's word that the aircraft had to be sole-sourced.

To put this in plain speak, which is what I think we really need right now, isn't moving this now to Public Works simply rearranging the deck chairs on the *Titanic* while the band plays on?

How can we have any confidence whatsoever that the government is accepting any of these things? What they are saying, sir, is that DND did indeed perform basic due diligence.

**Mr. Andrew Saxton:** I'd like to raise a point of order, Mr. Chair.

The government has repeatedly said that it accepts the recommendation of the Auditor General. My colleague over there continues to misrepresent what the government has said. We accept the recommendation of the Auditor General.

**Hon. Gerry Byrne:** Mr. Chair, I'd like to respond to the point of order.

**The Chair:** I've heard your point of order. I do not consider it a point of order. It is a point of debate. You have the opportunity to refute anything the opposition members may say. They have a right to say it, unless it's out of order, and it's not out of order.

Mr. Byrne, continue, please.

**Hon. Gerry Byrne:** I'd like to reply to the point of order, but I'll say this. I'll state what the government says, and I'm quoting from the report of the Auditor General: Both National Defence and Public Works and Government Services Canada disagree with the conclusions set out in paragraphs 2.80 and 2.81.

Everything that I just talked about is paragraphs 2.80 and 2.81. The government says, and they can't deny this, that they accept the recommendations but they do not accept your conclusions. This report is about your conclusions. This is about the process. This is an audit of the integrity of the process.

Are we, or are we not, simply rearranging deck chairs on the *Titanic* while the band plays on by simply moving it to Public Works without acknowledging that very serious errors were made on a \$25 billion-plus deal and that Parliament was treated in contempt in the process?

• (0930)

**Mr. Michael Ferguson:** Again, really all I can speak to are the conclusions in our report, and I think our conclusions are very clear. They are a very frank assessment of what happened and where there were problems. We feel our conclusions were the right conclusions

based on the evidence. The departments disagreed with those, and we brought that forward.

It is really now up to this committee, Parliament, to take this report and use it as part of the process going forward.

**Hon. Gerry Byrne:** Well, after a very intensive and properly conducted performance audit, your conclusions were rejected, so I'd like to ask your opinion.

Do you feel that if we brought forward the witnesses I listed in my motion, which you heard earlier, from the Department of National Defence and from the Department of Public Works and Government Services, we could get a better idea about why they rejected your conclusions outright? Would they be able to provide us with an informed opinion about why the Government of Canada, the Harper administration, rejected the findings, the conclusions, of the Auditor General of Canada on the F-35 issue?

**Mr. Andrew Saxton:** Mr. Chair, I raised a point of order.

**The Chair:** There's nothing out of order.

**Mr. Andrew Saxton:** Mr. Chairman, he is misrepresenting the government's position. The government has said repeatedly that we accept the recommendation of the Auditor General.

**The Chair:** Mr. Saxton, please come to order—

**Mr. Andrew Saxton:** He's misrepresenting the government's position. The government has accepted the recommendation of the Auditor General—

**The Chair:** Will you stop, please, and respect this meeting?

It's not out of order. If you do it again, there will be consequences. There is nothing out of order. You may not like it, but it's in order.

You have the floor. Continue.

**Hon. Gerry Byrne:** Mr. Chair, I'll repeat the government's formal response to the Auditor General of Canada in his report on the F-35 fighter jet acquisition: both National Defence and Public Works and Government Services Canada disagree with the conclusions the Auditor General sets out in paragraphs 2.80 and 2.81.

Those conclusions are as follows: that DND didn't perform basic due diligence of the \$25 billion deal, and that DND failed to engage Public Works on a basic contracting requirement arising out the 2006 MOU.

The government says that the Auditor General was wrong in saying that serious problems had not been communicated to Parliament and to cabinet, that the Auditor General was wrong that Public Works didn't fulfill its responsibilities as the government's procurement authority, and that the Auditor General was wrong that Public Works failed its basic responsibilities when it accepted National Defence's word for it that the aircraft had to be sole-sourced.

Will those witnesses I presented to you, sir, help us to uncover whether or not your conclusions were wrong?

**The Chair:** Thank you.

Please make a fairly brief response, Mr. Ferguson.

**Mr. Michael Ferguson:** I can't speak to the list of individual witnesses.

On the question about why the departments disagreed with our conclusions, they did agree with the facts, but the reason they would have disagreed with the conclusions is something that only the departments can answer.

**The Chair:** Very good.

Thank you.

Time has expired. We're moving along.

Mr. Aspin, you have the floor, sir.

**Mr. Jay Aspin (Nipissing—Timiskaming, CPC):** I'd like to pass my time to Mr. Saxton.

**The Chair:** Okay.

Mr. Saxton, you have the floor, sir.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

I'll just take a brief moment to reiterate what I said earlier, which is that the government has accepted the conclusions and the recommendations of the Auditor General in chapter 2 of his spring report.

I would now like to pass it back to my colleague, Mr. Aspin.

**Mr. Jay Aspin:** Thank you.

Thank you, Chair.

Welcome, Mr. Ferguson, and congratulations on your first audit. Welcome to the other guests as well.

I'd like to focus on chapter 6, "Special Examinations of Crown Corporations—2011".

As indicated by my colleague Mr. Shipley, the government managed \$375 billion worth of assets, hence the importance of this. This chapter essentially presents the main points of special examination reports on three crown corporations that were completed and published in 2011.

Quoting from your statement this morning, Mr. Ferguson, you said that:

We found no significant deficiencies in the systems and practices of the Canadian Dairy Corporation, the Canadian Race Relations Foundation, and the Public Sector Pension Investment Board.

Focusing on that last organization specifically, the Public Sector Pension Investment Board, we support the continued good work of the PSPIB and its prudent and responsible management of public service pension funds.

The Public Sector Pension Investment Board is responsible for managing the retirement savings of the public service, the Canadian Forces, the RCMP, and reserve forces. The examination of this board

included in chapter 6 concluded that the board's operations were carried out effectively.

Sir, can you highlight some of the board's best practices?

• (0935)

**Mr. Michael Ferguson:** The first thing to remember is that in a special examination we look at crown corporations over a cycle. We look to see whether they have systems and practices in place to ensure that assets are safeguarded and controlled, that their financial, human, and physical resources are managed economically and efficiently, and that operations are carried out effectively. In each of the three organizations we are reporting on in this report, we didn't find any significant deficiencies.

**On the Public Sector Pension Investment Board, we lay out a number of items in the chapter. We say:**

The Corporation has the key elements of a strong governance framework, and its governance practices are consistent with industry practices for stewardship and oversight by boards of directors.

**We state:** The Corporation's risk management practices...provide for identification, monitoring, management, and reporting of risks to protect its assets from undue risk of loss.

We report that their compensation framework and practices are comparable with those of industry and that they regularly benchmark their practices against those of comparable organizations.

Consequently, most of the items we identified in here are some of the strengths of what were going on in the organization. We also identified that the lack of the staggering of appointments to the board of directors may potentially lead to significant turnover in the board membership in 2014 and 2015, so we identified that there is a risk in terms of when the terms of board members expire and the process to replace those board members.

**Mr. Jay Aspin:** Thank you, sir. Generally speaking, it's good news indeed.

The Conservative Party election platform and Budget 2011 focused on issues that mattered to farmers, such as protecting supply management. This was not, of course, supported by the opposition.

The Canadian Dairy Commission's objective is to give Canadian dairy producers the opportunity to obtain a fair return for their labour and investment and to provide consumers with an easy and sufficient supply of high-quality dairy products.

Our government has been very vocal in our continued support—

**The Chair:** Mr. Aspin, please ask your question. You're over time, actually.

**Mr. Jay Aspin:** Okay.

With that background, Mr. Ferguson, can you please explain to this committee what other major findings on the Canadian Dairy Commission were in this report?

**The Chair:** Do that briefly, please, Mr. Ferguson.

**Mr. Michael Ferguson:** We have a section in the report on what we found. It identifies the good practices in the areas of improvement that are required. That can be found in the chapter.

• (0940)

**The Chair:** Very good. Thank you both. I appreciate it.

Madame Blanchette-Lamothe, you have the floor.

[Translation]

**Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP):** Thank you, Mr. Chair.

Mr. Ferguson, you made just one recommendation in your report and it is quite broad. I wonder if you can add any more details about possible priorities so that the mistakes made in the F-35 affair do not happen again.

Could you tell us about any steps that could be taken to correct the mistakes you pointed out?

[English]

**The Chair:** Go ahead, Mr. Ferguson.

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

We made one recommendation.

[Translation]

In this chapter, we found problems in three areas. Information was prepared too late or was incomplete; the Department of National Defence overestimated its ability to properly handle the unforeseen, and there were problems in terms of the financial information presented to decision-makers and to Parliament.

[English]

We identified weaknesses in three prime areas: the process that was followed, the risk mitigation strategy, and the financial information. We feel that part of any process going forward is to first make sure there will be rigour and scrutiny around the actual steps in the process. Second, the government will need to make sure it has an appropriate risk mitigation strategy and has full cost information available.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** What you say is very interesting. I wonder why it is not a recommendation in your report.

In 2010, the report on the helicopter purchase had six recommendations that were intended not only to correct the mistakes that had been pointed out but also to improve the work done by departments in following the processes for future procurement.

It seems to me that what you have just said is precisely about improving the processes and the areas about which you made recommendations.

Is there a reason why they are not recommendations in your report?

[English]

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

I believe the reason we didn't make more of a recommendation in this chapter was the point in time that we were actually looking at it. The fact that we simply identified that sufficient due diligence was not applied is information that needs to be taken to indicate that throughout the completion of this....

The final objective is to replace the CF-18s. Even though there isn't a recommendation on it, the message in the chapter is clear: to complete this project, there needs to be a very good and rigorous process that people can have confidence in.

[Translation]

**Ms. Lysane Blanchette-Lamothe:** Thank you.

Now I would like to ask Mr. Berthelette a question. In 2010, when the report on the helicopters was prepared, I know you were there. On that occasion, the deputy minister of public works said the following:

Second, we need to develop tools and templates for complex procurement activities, which will inform best approaches vis-à-vis lowest-cost compliant or best value to the crown. Finally, we need to provide enhanced training for staff assigned to complex procurement processes.

Those words were spoken in 2010, and you were present. Mr. Berthelette, do you think that the objective that the department set itself has been achieved?

• (0945)

**Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General of Canada):** Mr. Chair, we did not follow up on the helicopter chapter. So I am not in a position to provide the member with a specific answer.

**Ms. Lysane Blanchette-Lamothe:** Is it your view that the observations made in this report on the F-35 process are very similar to what was written about the deficiencies uncovered in the helicopter procurement process?

[English]

**Mr. Michael Ferguson:** The critical thing is that we identified in this chapter that there were some significant issues with the purchasing process, the decision process. They speak for themselves. We haven't done a follow-up on the helicopter chapter and that detailed comparison. I think the items we found in this chapter are significant and stand on their own as things that need to be done better as this process moves forward.

**The Chair:** Thank you both.

The time has expired.

Madam Bateman, you have the floor.

**Ms. Joyce Bateman (Winnipeg South Centre, CPC):** Thank you very much, Mr. Chair.

Thank you very much, sir, for being here with us today, and your colleagues. I really appreciate that the work you do adds value to the work of every public servant and elected official. I would very much like you to share that with your entire team. I understand the complexity and work that go into these reports, and I very much appreciate it.

I'm also a student of French.

[Translation]

Your work really does give us added value, sir.

[English]

I am going to choose the interest-bearing debt chapter for a few questions. I'm doing that because, as you know, this is an enormous amount of money, and it's the intention of this government to ensure that the amount goes down in the very near future.

When I look at the details in this chapter of what has been done, I'm very pleased to see that overall your findings were quite positive. As a government, we absolutely support all five of your recommendations in this particular chapter of the report. We are willing to do everything possible to improve this system, and that's where you are the value-added for us always.

The report spoke to the sound decision-making process and the analytical framework supporting efficient management of this government's market debt. Two of your five recommendations have already been acted on, and I believe we've already taken action on the recommendation on public sector pension plan investments; as well, the presentation of a breakdown of interest and other costs within the estimates has already been addressed.

While we're very pleased with your findings, we always want to get it better and make it more efficient and effective for Canadian citizens, so I'm just wondering.... I have to mention that yesterday a *Wall Street Journal* report indicated that our debt management approach is superlative, and it's worth a read. It says, "Canada Beats America. And we don't mean in hockey. Try taxes, spending and energy."

On the spending piece, I see you as a valuable tool to make the process better for Canadians. Were you pleased with the openness and the receptiveness of our officials in the Department of Finance to embrace all your recommendations and to cooperate and implement them?

**Mr. Michael Ferguson:** Certainly we had cooperation from the Department of Finance, and they agreed with our recommendation, so we didn't have any concerns in that matter.

• (0950)

**Ms. Joyce Bateman:** You got cooperation. I've already spoken to the fact that two of your recommendations have already been addressed and embraced and implemented.

What is a reasonable timeline to implement the remaining recommendations? Could you speak to that?

**Mr. Michael Ferguson:** When we make a recommendation, it's then the responsibility of the department to which we are making the recommendation to put together an action plan, including a timeline for implementation. I wouldn't have any specific timelines for the individual recommendations, but that's what we would expect the department to come forward with.

**Ms. Joyce Bateman:** Do you speak to the department about their action plan subsequent to the audit or as a part of the final meetings within the audit process? I ask that in terms of a guidance piece. The words "action plan" make my heart sing, but I'm just curious about your follow-up approach with officials.

**Mr. Michael Ferguson:** As part of our process when we're making recommendations to departments and they are responding to us, we would have a discussion about how difficult or how complex

it would be to implement some of those recommendations. Then the actual action plan and their implementing of it could possibly be the subject of a follow-up audit, if we chose to do one, or would be information that would come forward to a committee such as this one for the departments to speak to and to be held accountable to.

**Ms. Joyce Bateman:** Okay. And there's—

**The Chair:** Sorry, Madam, but time flies when you're having fun.

We are now back to Mr. Byrne; you have the floor, sir.

**Hon. Gerry Byrne:** Thank you, Mr. Chair.

Mr. Ferguson, could you confirm to the committee that the Department of National Defence and the Department of Public Works and Government Services Canada replied to your office, when presented with the draft findings of your performance audit on the F-35 purchase, that they did not accept the conclusions as outlined in paragraphs 2.80 and 2.81? Did the Department of National Defence and the Department of Public Works reply to you that they did not accept your conclusions?

**Mr. Michael Ferguson:** I think, for the record, I will read the section of the report that deals with that. It is paragraph 2.82, which says,

2.82 Both National Defence and Public Works and Government Services Canada disagree with our conclusion that they did not demonstrate due diligence in their respective roles in the replacement of the CF-18 jets. The departments believe that the level of due diligence was appropriate within the time frame covered by this audit.

I think that responds to the honourable member's question.

**Hon. Gerry Byrne:** It does, Mr. Chair, indeed.

The question, as you raised it, is one of confidence. It's one of confidence that the government has been seized by the issue and is prepared to act accordingly on it.

I don't know how the government is going to circle this square. We just heard statements from the parliamentary secretary and from the Associate Minister of National Defence on the floor of the House of Commons that they accept the conclusions you brought forward in this report, yet you say to us that when you asked them, they didn't accept your conclusions about due diligence being performed. I accept your conclusions.

I'd like to know whether you have confidence that by simply shifting this over to Public Works, lessons will have been learned and the process will now all of a sudden become fruitful.

**Mr. Michael Ferguson:** Again, I can't provide an opinion on something we haven't done an audit of. What we've done is brought forward the issues and the problems with the process to date. We'd certainly expect that this would be information the departments and the government would use moving forward.

**Hon. Gerry Byrne:** Thank you, and thank you, Mr. Chair.

I want to raise an issue that was brought forward by the *The Hill Times* just recently. There was an indication in a statement made by government ministers, in reply to the tabling of this audit, that the United States and the joint strike fighter program office of the United States would be providing annual costing forecasts to partner countries and that Canada would table those annual forecasts in Parliament. Do you have any evidence that those annual forecasts were actually provided in the past to the Department of National Defence?

• (0955)

**Mr. Michael Ferguson:** It's my understanding that costing information has been coming forward from the joint strike fighter program. I can't give you the exact specifics on what it was, but coming up with costing estimates has been part of the whole program.

**Hon. Gerry Byrne:** That's very helpful to know. I think we'll ask for the production of those documents as our committee proceeds, hopefully, with our study.

If the Government of Canada does not agree that the Department of National Defence didn't perform basic due diligence on this \$25 billion-plus deal and simply move it to Public Works without actually taking responsibility and saying, "You're right, Auditor General; we didn't do this", I and other Canadians are concerned that this whole notion of learned best practices will fall by the wayside.

What advice would you give this committee, if any, in terms of a study of this particular issue? What specifically should we be looking for in terms of calling forward witnesses who could provide us with advice on best practices and how exactly to conduct a procurement of this magnitude?

**Mr. Michael Ferguson:** It's not a question I've given a lot of thought to, but certainly the critical thing is to make sure that any process, moving forward, takes into account the types of problems we identified here in terms of process, in terms of risk mitigation strategy, and in terms of financial cost analysis. As well, this process should be one with proper scrutiny, due diligence, and transparency. I can't give you any more specific response than that, but I think anything needs to take into account the issues we raised here moving forward.

**Hon. Gerry Byrne:** Thank you.

**The Chair:** I'm sorry, but your time has expired.

Madam Ambler, welcome to our committee. You have the floor.

**Mrs. Stella Ambler (Mississauga South, CPC):** Thank you, Mr. Chair.

Thank you to the Auditor General and your team for appearing today.

I agree that this is an issue of confidence. Whether we're talking about fighter jets or getting the best value for the taxpayer's dollar, this government is about fairness and making sure we do the right thing with valuable public dollars, so I think it's important to note that this government agrees with you and is taking steps to implement your recommendations. That goes for the Canada Revenue Agency as well.

My questions for you are on chapter 4, non-filers and non-registrants. This program has approximately 700 employees and a budget of \$39 million. In turn it generates roughly \$2.8 billion in additional taxes, interest, and penalties.

In your view, is this an acceptable return on investment for the taxpayer dollars devoted to this activity?

**Mr. Michael Ferguson:** We identified in this chapter that Canada Revenue Agency is getting a good return on its investment for the amount of money it's spending. We also identified that there might be some ways they could improve on that, but for the most part they were getting good return on their investment.

**Mrs. Stella Ambler:** Thank you.

I noted that too in the report, in the sections highlighted in blue in this chapter. All of them were agreed to by CRA, which I think is encouraging. There's always room for improvement, so I'm happy to see there are better ways.

In your view, has the Canada Revenue Agency identified these non-filers and non-registrants appropriately and well? Have they prioritized it in their strategy to combat the underground economy? In other words, how is CRA doing in finding those Canadians who operate within the underground economy?

• (1000)

**Mr. Michael Ferguson:** We didn't specifically tie this audit to the underground economy. This audit was about Canada Revenue Agency's procedures and practices for identifying people who should be filing tax returns or companies that should be registering for GST purposes.

We identified that Canada Revenue Agency has been successful in identifying a number of those people or organizations. That has resulted in additional assessment of taxes, interest, and penalties. It's important to remember that while we're able to assess those additional taxes, interest, and penalties, they need to be collected. That's the next step along the continuum.

**Mrs. Stella Ambler:** Very good. Thank you.

Also on best practices, I note in your report that the agency has been conducting research into the optimal enforcement strategy for individual non-filers. They're essentially using data from past filing histories to identify those who might be at greatest risk of not paying their taxes. You state that the agency has launched a pilot project recently in this area, and the results are encouraging.

Can you give the committee a better understanding of this pilot project?

**Mr. Michael Ferguson:** I don't have the details on the pilot project at the front of my mind. At the risk of getting it wrong, I don't think I can give you the exact details on it. We did identify that they were successful in putting in place some pilot projects that were providing them with a good return.

**Mrs. Stella Ambler:** Thank you.

**The Chair:** Please be very brief.

**Mrs. Stella Ambler:** I was about to talk about other measures the CRA has taken and ask you about the taxpayer bill of rights and the taxpayers' ombudsman, both of which go toward ensuring tax fairness for all Canadians, because when one individual doesn't pay their taxes and do their fair share, then all Canadians suffer. Do you have any comments about those other measures that CRA has taken to ensure taxpayer fairness?

**The Chair:** Mr. Ferguson, reply very briefly, sir.

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

I will be brief because I can't make any comment on that. It wasn't part of our audit.

**The Chair:** Very good. That's as brief as it gets.

Thank you both very much.

We'll go over to Mr. Kellway, who has the floor, and we welcome him to our committee today also.

**Mr. Matthew Kellway (Beaches—East York, NDP):** Thank you very much, Mr. Chair.

Through you, thanks to the Auditor General and his team for being here today.

I want to pick up where my colleague, Madame Blanchette-Lamothe, left off, talking a bit about the helicopters. I went back to the 2010 AG's report, chapter 6, about the acquisition of the military helicopters, because I wasn't around at the time and I understand you weren't, Mr. Ferguson. However, it set off lots of bells in my head when I was reading your report.

Without delving too deeply into that report, I want to read out some of the chapter subheadings to you. The subheadings deal with changes in contract provisions not consistent with this procurement strategy; the developmental nature of the helicopter being underestimated; the full life cycle costs, including in-service support not being determined; and management oversight and approval of senior boards missing at key decisions in the project. All of this, I'm sure, sounds very familiar to you from your own report. I think that most of the findings from your own report could fit quite comfortably under those chapter subheadings.

Yet what troubles me about your report, Mr. Ferguson, is that there is a disconnect between your conclusions and the recommendations, I believe, in that they don't address many of the issues and conclusions that you've come up with in the chapter. It doesn't deal with risks associated with the developmental nature of the F-35, with the absence of cost mitigation strategies, and—most fundamentally, I think—with the absence of adherence to what you call “legislation, policy, and departmental guidance” related to the procurement process.

All your conclusion really tells us is that the government has to refine its costing, which I find to be a curious word in light of your findings here that \$10 billion, or 40%, was left out of cost estimates by the department. There is no connection between those conclusions and the findings here.

I wonder why you didn't address the glaring issues and the conclusions that you found in the report in your recommendation.

● (1005)

**Mr. Michael Ferguson:** Again, in the process the important thing for us to identify was where there were weaknesses and where there were problems. We concluded that National Defence did not apply sufficient due diligence and that Public Works didn't provide the necessary oversight.

I think the conclusions are very clear, and I think that the conclusions would lead one to understand that as this process moves forward, or in any other process, what's critical is to have a process that has due diligence that people will be confident in. We didn't make any specific recommendation, but I think that such an understanding does come out of those conclusions.

**Mr. Matthew Kellway:** Can I suggest to you, Mr. Ferguson, that it really doesn't? My colleague Mr. Byrne has been on this issue of the departments not accepting these conclusions. In fact, what I find is that the recommendation only perpetuates what I believe to be a fiction. We actually don't already know what the appropriate life cycle cost estimates are. I mean, it perpetuates the fiction that the information is not already readily available.

When the government promises to table reports coming out of the United States and the Department of Defense, those things are already publicly available. If you do a little Google alert on your BlackBerry for F-35, you will be swamped with information and life cycle costs coming out of very reliable U.S. government departments that are doing these things constantly.

Why, in light of the department's refusal to accept the conclusions, doesn't the Auditor General take that one step further and make recommendations based on the conclusions you found?

**Mr. Michael Ferguson:** With regard to the recommendation we made on the costing, we identified that there were components of the financial information that should have been included in National Defence's costing. We would expect National Defence to come forward with a costing based on everything they know, including not only the information that comes from the U.S. but also the Canadian-specific items that need to be added in. That all needed to be part of the information they brought forward. That's why there was a specific recommendation on the financial information.

In terms of the rest of the chapter, I can only repeat that we felt the conclusions were strongly worded. They were clear in terms of what we found and the problems we found. We think that anybody reading the report would understand that what has to happen in these types of things is that there has to be due diligence so that people have confidence in these types of decisions.

● (1010)

**The Chair:** Thank you both very much. Time has expired.

Our last speaker in the rotation is Mr. Dreeshen.

You now have the floor, sir.

**Mr. Earl Dreeshen (Red Deer, CPC):** Thank you very much. Thanks to our witnesses for coming here today.

Your report addresses the wide range of issues that illustrate how complicated it is and the challenges that governments face. It's great that you're here to be able to bring this into focus.

I'm going to be speaking about chapter 1, and I'll give you a heads-up that I'll be looking at 1.29 and 1.53, as far as recommendations are concerned.

For the border controls and commercial imports, a diverse range of imported products had their safety regimes analyzed, including fertilizers, health products, pest control products, consumer products, and vehicles, just to name a few things. You also examined how CBSA, CFIA, Health Canada, Natural Resources Canada, and Transport Canada work together to ensure that products comply with the applicable legislations when they enter Canada. The audit showed that adequate controlled inspections take place and that the departments work closely together to ensure we do have product safety.

I think one of the critical points is their coordination, cooperation, and communication so that each group knows what the other is doing. In part of the recommendations, you talk about a process-monitoring framework. I'm wondering if perhaps you can expand upon that so that we could see the level of cooperation. Perhaps they can then be looking at ways of further expanding how they communicate with each other in order to know what is taking place.

**Mr. Michael Ferguson:** When we tested to see whether the controls on commercial imports were working at the border, we found we were not able to rely on the actual monitoring of the organizations themselves. That meant we had to go in and do the testing of the controls ourselves to gather the information about how well they were working.

We fundamentally believe that it's critical for those organizations to do that monitoring themselves so that they will have the information that can feed back into a continuous improvement process. Monitoring information will provide the organizations with the feedback they need to make the necessary improvements. While we found that the controls were generally working at the border, we did find some things that got through.

We also identified, for example, that CBSA and Health Canada need to finalize the agreement they've been working on for some years to define roles and responsibilities. If those things are done, we think it will help to improve the controls of commercial imports at the border.

**Mr. Earl Dreeshen:** The other part is that there's a discussion with CFIA and CBSA of working together as far as product safety is concerned. It's important that Canadian families recognize and can be assured that the government takes Canadian food safety very seriously. Whether domestically produced or imported, it's subject to rigorous food safety regulations.

To emphasize the point, we know that in the last budget \$100 million was put into that particular programming, and in this new budget an additional \$50 million has been pledged for food safety, building on that pledge from last year. I think it's important, because sometimes people get caught up in this and think there is an issue in that particular area, comparing management decisions on efficiencies

that you would have within a department with actual boots on the ground and doing the work that is necessary.

Could you talk a little more about the referrals that come from CBSA to CFIA and demonstrate how CFIA is indeed doing the job it is supposed to be doing, as far as protecting Canadians is concerned?

**Mr. Michael Ferguson:** Mr. Chair, if I could, I'll ask Wendy to answer that question.

**The Chair:** Sure.

**Ms. Wendy Loschiuk (Assistant Auditor General, Office of the Auditor General of Canada):** Thank you very much, Mr. Chair.

With regard to the referrals that you're speaking about, that's a process whereby CFIA and border services officers ask the other departments what they should do. They have something there at the border and they I need to know what to do with it.

We looked at those and we found that because they weren't monitoring them.... Going back to the overall message in the chapter, there needs to be better monitoring. Because they weren't doing that, we weren't able to conclude how well border services officers were doing the jobs that were being asked of them.

We say in the chapter that, for example, that it wasn't clear they had done the right thing with some shipments, so we go back to our conclusion that this needs to be strengthened, especially with Health Canada.

• (1015)

**The Chair:** Thank you.

I'm sorry, Mr. Dreeshen. Time has expired.

Colleagues, that completes the rotation. Unless there's a motion to continue, I suggest we now conclude the receiving of Mr. Ferguson's report and thank his assistant auditors, Mr. Berthelette and Ms. Loschiuk. Thank you all very much. We look forward to seeing you in the future.

With that, unless there are any other interventions, I will excuse our witnesses and assure them that they have the thanks of this committee and Canadians for the job that you're doing. We appreciate it. Good luck going forward.

**Mr. Michael Ferguson:** Thank you very much, Mr. Chair.

**The Chair:** Thank you.

Go ahead, Mr. Saxton.

**Mr. Andrew Saxton:** Thank you, Mr. Chair.

I understand, as we agreed previously, that we will now be discussing committee business, scheduling of witnesses, and our upcoming schedule for the next few weeks after the break week. Therefore, as per normal procedure when we discuss these routine agenda items, we should go in camera.

**The Chair:** A motion to go in camera is in order. There's no debate.

**Hon. Gerry Byrne:** I have a point of order.

**The Chair:** I'll take a point of order, but it had better be a point of order.

**Hon. Gerry Byrne:** I believe it's in keeping with the practices of the committee to request a recorded vote of this motion.

**The Chair:** No problem. If you wish to have a recorded vote, that's fine. Therefore we will place the motion now, and I'll ask the clerk to do a recorded vote.

(Motion agreed to: yeas 7; nays 4)

**The Chair:** Thank you, colleagues. This committee will move in camera.

I will suspend the meeting for a moment to allow for technical adjustment and to allow guests who need to leave to do so.

*[Proceedings continue in camera]*

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